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The Effect of Free Cash Flow, Size, and Growth with Profitability as Moderating Variable on Earning Response Coefficient in Property Sector

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Abstract

This thesis is a quantitative research market based accounting research manifold explanatory causality which aims to analyze and prove the influence of Free Cash Flow, Size, and Growth with Profitability moderated to Earning Response Coefficient on Property Sector. In an efficient market, the published financial information will be responded promptly by the market in this study is proxied by the ERC. Data obtained from the Indonesia Stock Exchange and is compliant with the classical assumption, as normality test, multicollinearity test, heteroscedasticity test, and test of auto correlation. The results of the data with SPSS version 22 obtain the adjusted R squared of 0.297 with a significance level of 0.027 <0.05. Then the hypothesis is accepted Free Cash Flow, Size, and Growth with Profitability moderated negative influence on Earning Response Coefficient on Property Sector with great influence 29.7%. The relationship is negative, which means that signaling theory that happens is bad news.

***Keywords** : Free Cash Flow, Size, Growth, Profitability, and Earning Response Coefficient.*

1. INTRODUCTION

As defined in PSAK No. 1, the purpose of the Financial Statement of the general form is to provide information on the financial position, financial performance, and cash flows of entities beneficial to most users of the report in economic decision-making. Where in terms of management, the Financial Report shows the results of management accountability for the use of the resources entrusted to them. General purpose financial statements are financial statements aimed at meeting the needs of most users.

Pursuant to Decision of Board of Directors of PT Bursa Efek Jakarta no Kep-306 / BEJ / 07-2004 hence in the framework of conducting Securities trading that is regular, reasonable and efficient, the Listed Company must submit to Exchange periodic reports, incidental reports, and Public Expose. Where the duty of delivery and the Public Expose shall be made concurrently no later than the end of the third month after the date of the Annual Financial Statement.

According to William R. Sott in his Financial Accounting Theory (2015), the major constituents or users of the main Financial Statements that have been adopted by the IASB / FASB joint draft are potential investors and potential investors, as well as creditors. Scott says

"... it states that the objective of financial statements is to provide information to assist investors to make investment decisions."

It can be said how much dividends to be distributed to shareholders depends on: the dividend policy of each company in which this dividend policy is made by considering, among other things, the financial condition of the company, especially the free cash flow that is formed. Free Cash Flow by K.R. Subramanyam and John J. Wild (Financial Statement Analysis, 417), are net after-tax operating income (NOPAT) after net operating assets (NOA) are deducted. Free cash flow positive means to describe the amount of funds available for business activities after setting aside for investment and funding activities. While free cash flow will be negative in companies that have greater investment than operating profit. If free cash flow is negative, cash cultivation is required in the operation through the sale of financial assets or loans or debts (Nurwahyudi and Mardiyah, 2004). From the data sample research can be said that each company different free cash flow, where the tendency for the three-year period above the chart tends to decline, which can be seen from the data table that most of the companies above, has a flow of free cash flow tend to be negative, position is below the 0% line. Free cash flow is negative because many companies use net cash flows from operating activities for their investment activities such as purchase of fixed assets, acquisitions of subsidiaries and others. Free Cash Flow is negative, resulting in shareholder share in the form of reduced or affected dividends. So this research hypothesis is free cash flow have positive effect to ERC.

Investors also tend to pay attention to the size of the company by looking at the total value of its assets (current assets, long-term investments, fixed assets, and other assets). Research Fitriani (2001) states there are three alternatives used to calculate the size of the company, namely total assets, net sales and market capitalization. Total assets used because he thinks total assets more shows the size of the company compared with market capitalization.

Companies with a significant growth rate and sustainable will be more attractive to investors. Profit information on these companies will be responded positively by investors. Using the ratio of market value of equity to book value of equity as a measure of growth, Collins and Kothari (1989) found a positive relationship between this measure and ERC. Growth of the company can affect earnings response coefficient. High growth companies will be able to complete their projects. Therefore, the increase in profits will be responded positively by investors. The hypothesis of this research is positive positive growth to ERC.

According to Anaroraga and Widianti, (1997: 300), profitability describes the ability of companies to generate profits, both connected with their own capital and joint capital. Profitability can explain that the company's ability to generate profits is dependent on the size of the sale, the investment of assets (investment) and the absorption of equity (equity). Erma Setiawati, Nursiam, and Fitri Apriliana (2014) research resulted that the profitability of the company influenced the Coefficient of Profit Response (ERC). These results support the research of Naimah and Siddarta U. (2006), and Setyaningtyas (2009) stating that Profitability Affects the Coefficient of Profit Response (ERC). However, different results were obtained from research conducted by Arfan and Ira A., (2008) and Susanto (2012) which showed that Profitability Company (ROA) has no effect on Profit Response Coefficient (ERC). This is possible because of differences in the measurement of the Company's Profitability value.

.Therefore the title of this research is "Effect of Free Cash Flow, Size, and Growth with Profitability as Moderating Variable to Earning Response Coefficient (ERC) in Property Sector." Thus, this study aims to determine the effect of Free Cash Flow, size (company size) , and growth and profitability of corporate ERCs, furthermore, is to provide empirical evidence that the company's underlying financial information is feasible for investors to consider in making investment decisions.

2. LITERATURE REVIEW

2.1. Financial Statements

In accordance with PSAK No. 1, the Financial Statement is a structured presentation of the financial position and financial performance of an entity with the purpose of providing information on the financial position, financial performance, and cash flows of entities beneficial to most users of the report in economic decision-making. The financial statements are made by the management of the company as a result of management's accountability for the use of the resources entrusted to them.

This study would like to see whether the purpose of Financial Statements according to PSAK No. 1 as a tool that helps management to make economic decisions, especially in the field of financing in property sector companies has been achieved as evidenced by the value of ERC (Earning Response Coefficient) from the period observation before, when and after financial statements published.

2.2. The Theory of Value Relevance

The published public company financial report must have two qualitative values in the accounting information presented, namely the value of relevance (relevance) and reliability (reliability). In FASB Concept Statement No. 2, states that to be relevant, accounting information must be able to make different decisions for its users in predicting the impact of past, present, and future events, to confirm or correct expectations. In other words, relevancy is the qualitative value of a useful financial report to help its users in predicting estimated payments from future earnings, which is useful for making investment decisions.

2.3. Theory of Signaling

Signaling theory (theory of signals) is used to explain that basically an information is used to give the company a positive or negative signal to the wearer. Theory of signals (Leland and Pyle in Scott, 2012: 475) states that corporate executives with better information about their companies will be encouraged to convey the information to potential investors where the company can increase the value of the company through its reporting by sending a signal through its annual report. Management does not fully convey all the information it acquires about everything that can affect the value of the company to the capital market, so that if management conveys an information to the market, then generally the market will react to the information as a signal (Listiana: 2009).

3. RESEARCH METHOD

3.1. Research Design

The type of research is explanatory-causality and is a market-based accounting research because it aims to test and explain the causal relationship between free cash flow, size, and growth of Earning Response Coefficient with moderating variables Profitability at listed property companies in BEI. The population of this study are companies listed on the Indonesian Stock Exchange property sector, 2011-2015 period. Sampling method with Purposive Sampling technique from 60 property companies (access dated June 24, 2016) is filtered there are 31 property companies that meet the sample criteria.

3.2. Testing Statistically

This study uses classical assumption test consisting of normality test, multicolinearity test, heteroscedasticity test, and autocorrelation test. Furthermore, the researchers tested the hypothesis consisting of T test and F test.

4. RESULT AND DISCUSSION

4.1 Descriptive Statistics

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FCF	155	-3367198693132	1971932850000	8277170455,59	592335124483,124
Size_Data	155	148085000000	41326558000000	7985897690322,57	7953806999378,018
GROWTH	155	-,4686	1,2302	,252064	,3140004
ROE	155	,0043	,5243	,145950	,0870294
Valid N (listwise)	155				

source: data processed by SPSS

From the table above, found for the Free Cash Flow variable the maximum value (maximum) was found to be Rp 1,971,932,850,000, - and the average value of Rp 8,277,170,456, - while the lowest value (minimum) was Rp (3,367,198,693 .132, -). For Size variable the highest value (maximum) is found to be Rp41.326.558.000.000, - minimum value Rp148.085.000.000, and average value (mean) is Rp7.985.897.690.323, - Size value is obtained from total asset value. Growth (Growth) largest is 123%, while the lowest growth of (46,86%). Minus growth is achieved because the revenue in 2015 is smaller than the previous year. While the average growth was 25.2%. For ROE (Return on Equity) which is a proxy of profitability as follows: minimum value of 0.43%. Means Rp1,000 equity will generate return of Rp 4.3. The maximum value of ROE is 52,43%. This means that if we invest capital of Rp 1,000, - will bring a profit of Rp524.3, - While the average ROE is 14.6% which means if we invest equity of Rp1.000, - will bring profits of Rp 146,

4.2. Classic Assumption Test

4.2.1. Normality Test

Data is otherwise normally distributed if the significance is greater than 5% or 0.05. Using the SPSS Version 22 statistical tool, the following results are obtained:

Table 2. Kolmogorov-Smirnov Test

	Unstandardized Residual
N	32

Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,05600949
Most Extreme Differences	Absolute	,139
	Positive	,114
	Negative	-,139
Test Statistic		,139
Asymp. Sig. (2-tailed)		,117[c]

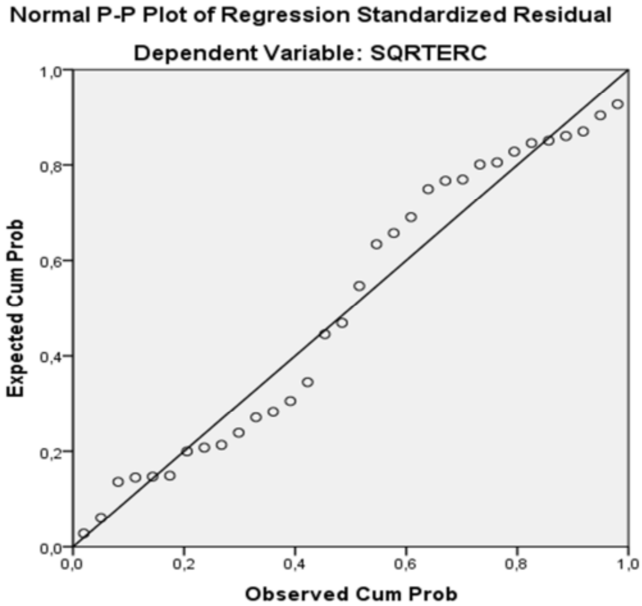

Figure 1. residual normality

4.2.2. Test of Multicollinearity

With SPSS version 22, the multicollinearity test results of this study by looking at the tolerance and VIF values are as follows:

Table 3. Multicollinearity test

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
SQRTGROWTH	,909	1,100
SQRTROE	,735	1,360
SQRTFCF	,792	1,263
SIZE	,969	1,032

a. Dependent Variable: SQRTERC

it is said that there is no multicolonierity if the tolerance value is greater (>) than 0.1 otherwise it is said to happen multicollinearity if the tolerance value is smaller (<) than 0.1. Referring to the point then the data in this study are all independent variables of multicollinearity or no correlation between independent variables.

Similarly, when viewed in the VIF column, the data is said to occur multicollinearity if the VIF value is greater or equal to 10, because the VIF values of the independent variables in this study are all <10, then said the variables are free from the assumption of multicollinearity.

4.2.3 Heteroscedasticity Test

To test heteroscedastisity can be used Test Glejser by way of meregresikan between independent variable with its residual absolute value. The value of t table for the sum of N = 146, the independent variable 4 so that the value of df = N - k is found 146 - 4 = 142, the significance level 2 side = 0.025 found value 1.97681. Because the value of t arithmetic <t table and significance value between independent variables with absolute residual greater than 0.05 then there is no problem heteroskedastisitas.

Table 4. Glejser test

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	,042	,106		,399	,693		
SQRTGROWTH	-,025	,019	-,251	-1,321	,197	,909	1,100
SQRTROE	-,043	,059	-,152	-,719	,478	,735	1,360
SQRTFCF	1,767E-8	,000	,178	,873	,391	,792	1,263
SIZE	,001	,004	,052	,285	,778	,969	1,032

4.2.4 Autocorrelation Test

Autocorrelation test is used to see if there is a correlation between a period t with the previous period (t -1). Regression models in studies that are more than one year period usually require an autocorrelation test. A good regression model should be free from the assumption of autocorrelation. Autocorrelation test can also be done with Run Test test. Researchers conducted the test Run tests on the data sample research, with SPSS version 22 generated data as follows:

Table 5. Runs Test

	Unstandardized Residual
Test Value[a]	,00119
Cases < Test Value	16
Cases >= Test Value	16
Total Cases	32
Number of Runs	19
Z	,539
Asymp. Sig. (2-tailed)	,590

From the line of significance (2-tailed) found 0.59 results which means greater than 0.05 then it can be said data is random and free from autocorrelation problems.

4.3. Hypothesis Testing

4.3.1 F Test (MRA)

The basis for decision-making based on SPSS results is by looking at the column of significance. If the significance <0.05, then there is a simultaneously significant influence of the independent and moderating variables on the dependent variable.

Results of data processing with SPSS version 22 produces the following data:

Table 6. F Test

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,059	7	,008	2,824	,027[b]
	Residual	,071	24	,003		
	Total	,130	31			

Because the level of significance is 0.027 <0.05, it is proven simultaneously independent variables with moderated profitability (ROE) affect the dependent variable. This means H8 accepted or FCF, Size, Growth with moderated Profitability positively affects ERC.

4.3.2 Statistical Test t

This test is conducted to determine the partial independent variables significantly influence or not to the dependent variable. The basis for the decision is to look at the column of significance that should be smaller (<) than 0.05. With the data SPSS version 22 found the following results:

Table 7. T test

Model	Unstandardized Coefficients		Standardized Coefficients			Decription
	B	Std. Error	Beta	T	Sig.	
(Constant)	-,978	,460		-2,127	,044	
SIZE	,036	,012	,720	2,963	,007	H_2 : Accepted
GROE	,404	,358	,482	1,128	,270	H_7 : Rejected
ZROE	-,092	,046	-2,868	-2,019	,055	H_6 : Rejected
FROE	9,013E-13	,000	1,188	2,858	,009	H_5 : Accepted
SQRTGROWTH	-,171	,091	-,653	-1,886	,072	H_2 : Rejected
SQRTROE	1,995	,980	2,727	2,035	,053	H_4 : Rejected
SQRTFCF	-3,318E-7	,000	-1,277	-3,389	,002	H_1 : Accepted

4.4. Discussion of Research Results

4.4.1 H_1: Free Cash Flowpositively affects ERC

Based on the results of research that has been previously disclosed from the results of t test MRA (partial) obtained the result that Free Cash Flow negatively affect the ERC with significance level 0.002. The above results show that if a Free Cash Flow of a company rises or increases, it will result in a decrease in the Earning Response Coefficient (ERC).

4.4.2 H_2: Size companies have a positive effect on ERC

Based on the results of research that has been previously disclosed from the results of t test MRA (partial) obtained the result that Size positive effect on ERC with significance level 0,007. These results indicate that if a company's Size increases or increases, it will result in an increase in Earning Response Coefficient (ERC) as well. The company's size in this study is measured by Total Asset LN. Investors tend to choose large companies to invest because of the habits that big companies have better management and performance, so it is expected to generate a fairly high rate of return.

4.4.3 H_3: Growth companies have no effect on ERC

Based on the results of research that has been previously disclosed from the results of t test MRA (partial) obtained the results that Growth does not positively affect the ERC with a significance level of 0.072. Hypothesis rejected.

The property sector is a capital-intensive industry. Investors are assuming that Indonesia's property props are promising even though the growth charts decline in the 2014 and 2015 periods. This is by looking at the composition of a large amount of productive age and largely uninvolved self-owned market shares that are promising in the future. Growth companies have no significant effect on ERC investors do not try to sell their shares when growth changes or decreases.

4.4.4 H_4: Profitability has no effect on ERC

Based on the results of research that has been previously disclosed from the results of t test MRA (partial) obtained results that Profitability proxied with ROE does not positively affect the ERC with a significance level of 0.053. Hypothesis rejected.

The property sector is an industry in which the price of inventory or the price of goods sold is quite large and tends to increase. When return on equity changes whether it increases or decreases, investors assume that Indonesia property prop is still promising. Because the inventories whose value is large enough tend to grow larger each time and propect in the future that is still quite promising. So ROE has no significant effect on ERC.

4.4.5 H_5: Profitability moderates Free Cash Flow relationship with ERC

Based on the results of research that has been previously revealed from the results of t test MRA (partial) obtained the result that the ROE moderate the relationship FCF with ERC variable with significance level 0.009. Hypothesis accepted.

The above results show that a Free Cash Flow of a company that rises or increases with moderated ROE will result in an increase in the Earning Response Coefficient (ERC). Free Cash Flow coupled with ROE will be considered the investors is a good signal that the company has sufficient liquidity as well as able to share profits to the shareholders after making an investment.

4.4.6 H_6: Profitability does not moderate Size relationship with ERC

Based on the results of research that has been previously disclosed from the results of t test MRA (partial) obtained the result that the ROE does not moderate the relationship Size with ERC variable with a significance level of 0.055. Means Ha rejected.

The above results show that the Size of a rising or rising company will result in an increase in Earning Response Coefficient (ERC) and this does not require ROE information. Size which accompanied by ROE will not be responded by market because of public pressure (investor).

4.4.7 H_7: Profitability does not moderate Growth relationship with ERC

Based on the results of research that has been previously disclosed from the results of t test MRA (partial) obtained the results that ROE does not moderate the relationship Growth with ERC with significance level of 0.27. Hypothesis means rejected.

The above results indicate that the Growth of a rising or falling firm has no significant effect on Earning Response Coefficient (ERC) and it is also the same when moderated with ROE. Growth coupled with ROE does not affect shareholder decisions in the market so ERC has no significant effect. Due to the characteristics of the property sector itself which by investors still have good prospects in the future so that the growth in this study is proxied with total sales, does not affect their investment decisions.

5. CONCLUSION

Based on the results of previous research and discussion, the following conclusions can be drawn:

5.1. **Free Cash Flow negatively affect ERC.**

Free Cash Flow enlarges, so the ERC is getting smaller, and vice versa. A negative ERC indicates that investors do not like excessive FCF which means there is unemployment fund in the company. It would be better to use the funds for profit-sharing to the owners of capital, for capital expenditures (purchase of fixed assets) or by building sample houses which may indicate that the company is preparing for future growth.

5.2. **Size companies have a positive effect on ERC.**

The larger the size of the company then the ERC is also getting bigger. Investors tend to choose large companies to invest because of the habits that big companies have better management and performance, so it is expected to generate a fairly high rate of return. When the company announces its Total Assets (size), the market will respond as a good news to be responded positively too.

5.3. Growth companies have no significant effect on ERC.

Although the growth of entities increases or decreases, the ERC will not be affected significantly. The property sector is a capital-intensive industry. Investors assume that Indonesia's property props are still promising even though growth charts are declining.

5.4. **Profitability has no significant effect on ERC.**

The property sector is an industry in which the price of inventory or the price of goods sold is quite large and tends to increase. When return on equity changes whether it increases or decreases, investors assume that Indonesia property prop is still promising. Because the inventories whose value is large enough tend to grow larger each time and propect in the future that is still quite promising. So ROE has no significant effect on ERC.

5.5. **Profitability Moderate Free Cash Flow relationship with ERC**. Free Cash Flow coupled with ROE will be considered the investor is a good signal that the company has sufficient liquidity as well as able to share profits to the shareholders after making the investment so that the assumption of going concern is met.

5.6. H_6: Profitability does not moderate Size relationship with ERC
The above results show that the Size of a rising or rising company will result in an increase in Earning Response Coefficient (ERC) and this does not require ROE information. Information ROE will cause public pressure (investors) on the company.

5.7. Profitability does not moderate Growth relationship with ERC. Growth variables coupled with ROE do not affect shareholder decisions in the market so ERC has no significant effect.

Due to the characteristics of the property sector itself which by investors still have good prospects in the future so that the growth in this study is proxied with total sales and ROE does not affect their investment decisions.

5.8. Simultaneously Free Cash Flow, Size, Growth with moderated Profitability negatively affect the ERC. The relationship is negative, which means the signaling theory is bad news. The dominant variable in this research is Free Cash Flow, where the market will react negatively if the company has excessive FCF.

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